

**Schoolcraft Community Schools  
Schoolcraft, Michigan**

**Annual Financial Statements  
and  
Auditors' Report**

**June 30, 2007**

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**Schoolcraft Community Schools**  
**Members of the Board of Education and Administration**  
**June 30, 2007**

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Members of the Board of Education

Mr. David Krum – President

Mr. Skip Fox – Vice President

Mrs. Kathy Mastenbrook – Treasurer

Mrs. Janette Gabel-Goes – Secretary

Dr. Jack Sauer – Trustee

Mrs. Darby Fetzer – Trustee

Mr. Michael Rochholz - Trustee

Administration

Mr. Douglas Knobloch



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## Independent Auditors' Report

To the Board of Education  
Schoolcraft Community Schools  
Schoolcraft, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Schoolcraft Community Schools as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Schoolcraft Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Schoolcraft Community Schools as of June 30, 2007, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 20, 2007, on our consideration of the Schoolcraft Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Schoolcraft Community Schools' basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Yeo & Yeo, P.C.*

Kalamazoo, Michigan  
September 20, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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## **Schoolcraft Community Schools Management's Discussion and Analysis For the Year Ended June 30, 2007**

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This section of the Schoolcraft Community Schools annual financial report presents a discussion and analysis of the School District's financial performance during the year ended June 30, 2007. It is to be read in conjunction with the School District's financial statements, which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Schoolcraft Community Schools financially as a whole. The District-wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the School District-wide financial statements by providing information about the School District's most significant funds - the General Fund, the 1996 Debt Fund, and the Capital Projects Fund with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

### ***Reporting the School District as a Whole - District-wide Financial Statements***

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps one answer this question. Statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, debt service, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.



**Schoolcraft Community Schools**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2007**

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***Reporting the School District's Most Significant Funds - Fund Financial Statements***

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help the School District to control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that the School District is meeting legal responsibilities for using certain taxes, grants, and other money (i.e. construction bond funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental Funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on demonstrating how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds are described in a reconciliation.

***The School District as Trustee - Reporting the School District's Fiduciary Responsibilities***

The School District is the trustee, or fiduciary, for student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. These activities are excluded from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Schoolcraft Community Schools  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007**

**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2007:

	Year Ended June 30, 2007	Year Ended June 30, 2006		Year Ended June 30, 2007	Year Ended June 30, 2006
<b>Assets</b>			<b>Liabilities</b>		
Current assets	\$ 3,354,680	\$ 3,673,422	Current liabilities	\$ 2,226,796	\$ 3,179,535
Capital assets	25,645,138	25,590,067	Long-term liabilities	16,924,087	17,396,435
Less: accumulated depreciation	(9,205,964)	(8,766,396)	Total liabilities	19,150,883	20,575,970
Capital assets, net book value	16,439,174	16,823,671	<b>Net Assets</b>		
			Invested in capital assets, net of related debt	(923,035)	(1,018,538)
			Restricted for debt service	278,276	278,143
			Restricted for capital projects	648,423	421,946
			Unrestricted	639,307	239,572
			Total net assets (liabilities)	642,971	(78,877)
Total assets	\$ <u>19,793,854</u>	\$ <u>20,497,093</u>	Total liabilities and net assets	\$ <u>19,793,854</u>	\$ <u>20,497,093</u>

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets (liabilities) were \$642,971 and (\$78,877) at June 30, 2007 and June 30, 2006, respectively. Capital assets (net of related debt totaling (\$923,035) and (\$1,018,538) at June 30, 2007 and June 30, 2006, respectively) compares the original cost, less depreciation, of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Debt repayments are outpacing the investment in additional capital assets as expected. All major renovations and building projects were completed prior to June 30, 2005 and maintenance plans have been put in place to care for the existing facilities so the School District anticipates the continuation of this trend. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$639,307 was unrestricted.

The \$639,307 and \$239,572 at June 30, 2007 and June 30, 2006, respectively, in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash

**Schoolcraft Community Schools  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007**

flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year. See below for further discussion on the change in unrestricted net assets.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal years 2007 and 2006 respectively.

**Table 2 - Statement of Activities**

	Year Ended June 30, 2007	Year Ended June 30, 2006		Year Ended June 30, 2007	Year Ended June 30, 2006
<b>Program revenue:</b>			<b>Expenses:</b>		
Charges for services	\$ 322,439	\$ 319,324	Instruction	\$ 6,244,510	\$ 6,022,588
Operating grants	957,016	781,438	Supporting Services	3,678,263	3,571,360
Total program revenue	1,279,455	1,100,762	Food services	305,479	288,209
<b>General revenue:</b>			Athletics	211,356	186,758
Property taxes, levied for general purposes	1,224,149	1,153,917	Interest on long-term debt	909,045	944,389
Property taxes, levied for debt service	1,760,958	1,664,733			
State aid, unrestricted	7,535,785	7,395,880			
Interest and investment earnings	46,370	45,749			
Other	136,784	275,875			
Total general revenue	10,704,046	10,536,154	Total expenses	\$ 11,348,653	\$ 11,013,304
<b>Extraordinary item - building transfer:</b>	87,000	-			
Total revenue	\$ 12,070,501	\$ 11,636,916	Increase in net assets	\$ 721,848	\$ 623,612

As reported in the statement of activities, the cost of all governmental activities for 2006-07 was \$11,348,653. Some activities were partially funded by those who benefited from the programs (\$322,439) or by subsidies from other governments and organizations (\$957,016). The remaining "public benefit" portion of governmental activities was paid for with \$1,224,149 in taxes, \$7,535,785 in state foundation allowance, and with other revenues (i.e. interest and general entitlements). The increase in property taxes levied can be attributed to two factors. A county wide enhancement millage of 1.5% generated an additional \$30,000 in revenue. These revenues have been earmarked by the Board of Education for the Capital Projects Fund. An additional \$44,000 in revenue has resulted from a \$2.5 million increase in the taxable value of non-homestead properties in the School District. The 2006 student enrollment increased from the previous year by 16 pupils, adding \$113,400 in revenue. The building trades home from the 2006-07 school year did not sell until September 2007 resulting in a decrease in other revenue of \$159,000 from 2006.

The School District experienced an increase in net assets of \$721,848.

## **Schoolcraft Community Schools Management's Discussion and Analysis For the Year Ended June 30, 2007**

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As discussed above, the net cost indicates the financial burden that was placed on the state and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

### **The School District's Funds**

As noted earlier, the School District uses funds to help control and manage money for particular purposes. Examining funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the 2006-07 fiscal year, the governmental funds reported a combined fund balance of \$2,295,121, which is an increase of \$333,970 from the previous year. The primary reasons for the increase are as follows:

The General Fund fund balance increased \$109,774 to \$1,358,661. The net change is primarily the result of:

- Increase in enrollment
- Decrease in energy usage and costs due to lower than projected price increases for energy
- Decrease in supply account expenditures district wide
- Decrease in wage and related costs due to a budgeted need in special education that was not filled

General Fund fund balance is available to fund costs related to allowable school operating purposes.

The 1996 Debt Service Fund remained stable from the prior year. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Durant debt obligations are funded by annual state appropriations, and no fund balance exists at year end. Debt Service Funds fund balances are reserved and can only be used to pay debt service obligations.

The Capital Projects Fund increased \$226,477 to \$648,423. This is the fund that the School District uses to manage the district wide capital asset replacement and maintenance plans. The 1.5 % county wide regional enhancement millage and District facility rental revenues fund these plans. The county wide millage is a three year millage and the level of rent revenue currently generated is forecasted to drop significantly in two years. The School District's asset replacement and maintenance plan is a long-term plan. The School District is committed to funding the Capital Projects Fund out of the General Fund at a steadily increasing level to replace the short term funding from these short term sources.

Special Revenue Funds remained stable from the prior year, reflecting a net decrease of approximately \$2,400.

**Schoolcraft Community Schools  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007**

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**General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to manage unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were revisions made to the 2006-07 General Fund original budget. Budgeted revenues were increased \$237,500 due primarily to an increase in the student enrollment of 16 pupils (\$115,900) and an anticipated increase in tax collections due to a forecasted increase in non-homestead tax value (\$89,500).

Budgeted expenditures were decreased \$68,800 primarily to account for a change in anticipated curriculum updates and a reduction in the utilities used school district wide.

**Capital Assets and Debt Administration**

***Capital Assets***

As of June 30, 2007, the School District had \$16.8 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture and equipment. This amount represents a net decrease from the previous year primarily due to depreciation, as the only major additions to capital assets was the purchase of a three used buses (\$69,800), the purchase of 100 computer units expected to replace existing units throughout the summer of 2006 (\$68,500) and various facility improvements that were individually insignificant (\$57,600).

The major capital projects planned for the 2006-2007 fiscal year include the purchase of transportation and maintenance vehicles (\$91,000), an upgrade to a virtual server system (\$44,000), the replacement of carpeting and repainting on a rotational basis in all the buildings (\$35,500), and the resurfacing of the track (\$35,000). These capital projects are expected to be funded primarily through the regional enhancement millage receipts that are projected to generate \$360,000 in revenue for the School District.

***Debt***

At the end of this year, the School District had \$13.5 million in bonds outstanding versus \$14 million in the previous year - a decrease of 4% percent. Those bonds consisted of the following:

	<u>2007</u>	<u>2006</u>
General Obligation Bonds	<u>\$ 13,470,000</u>	<u>\$ 14,035,000</u>

**Schoolcraft Community Schools  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007**

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The School District's general obligation bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "Qualified Debt," (i.e., debt backed by the State of Michigan), such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$13.4 million is significantly below the statutorily imposed limit.

Other obligations include accrued compensated absences. More detailed information about our long-term liabilities is presented in the notes to the financial statements.

**Economic Factors and Next Year's Budgets and Rates**

The School District's elected officials and administration consider many factors when setting the School District's 2007-08 fiscal year budget. One of the most important factors affecting the budget is student enrollment count. The state foundation revenue is determined by multiplying the blended student count by the state foundation allowance per pupil. The 2007-08 budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 81 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot access additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2007-08 school year, it is anticipated that the fall student count will be close to or slightly above the estimates used in creating the 2007-08 budget. The related per pupil funding has not been adopted by the State and therefore the School District opted to conservatively estimate a decrease of \$50 per pupil from the per pupil funding for the 2006-07 school year. The state economy continues to remain down and has not recovered at the pace forecasted for the third year in a row. The School District's administration continues to work under a zero basis budgeting approach, purchasing needs only, as they wait to see how the state budget crisis is handled.

## BASIC FINANCIAL STATEMENTS

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**Schoolcraft Community Schools**  
**Statement of Net Assets**  
**June 30, 2007**

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	<u>Governmental Activities</u>
<b>Assets</b>	
Cash	\$ 743,357
Taxes receivable	37,374
Accounts receivable	23,688
Due from other governmental units	1,390,427
Interest receivable	7,122
Inventory	197,905
Investments	851,113
Prepaid items	103,694
Capital assets not being depreciated	148,000
Capital assets - net of accumulated depreciation	<u>16,291,174</u>
 Total assets	 <u>\$ 19,793,854</u>



**Schoolcraft Community Schools**  
**Statement of Net Assets**  
**June 30, 2007**

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	<u>Governmental Activities</u>
<b>Liabilities</b>	
Accounts payable	\$ 327,501
Due to other governmental units	179,558
Payroll deductions and withholdings	68,094
Accrued expenditures	609,811
Accrued salaries payable	442,752
Deferred revenue	4,080
Noncurrent liabilities	
Due within one year	595,000
Due in more than one year	<u>16,924,087</u>
 Total liabilities	 <u>19,150,883</u>
 <b>Net Assets (Liabilities)</b>	
Invested in capital assets, net of related debt	(923,035)
Restricted for:	
Debt service	278,276
Capital projects	648,423
Unrestricted	<u>639,307</u>
 Total net assets	 <u><u>\$ 642,971</u></u>

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Statement of Activities**  
**For the Year Ended June 30, 2007**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction	\$ 6,222,954	\$ 50,000	\$ 881,767	\$ -	\$ (5,291,187)
Supporting services	3,699,819	-	-	-	(3,699,819)
Food services	305,479	225,490	75,249	-	(4,740)
Athletic activities	211,356	46,949	-	-	(164,407)
Interest on long-term debt	909,045	-	-	-	(909,045)
Total governmental activities	<u>\$ 11,348,653</u>	<u>\$ 322,439</u>	<u>\$ 957,016</u>	<u>\$ -</u>	<u>(10,069,198)</u>
General revenues					
Property taxes, levied for general purposes					1,224,149
Property taxes, levied for debt service					1,760,958
State aid - unrestricted					7,535,785
Interest and investment earnings					46,370
Other					136,784
Extraordinary item, building transfer					87,000
Total general revenues and extraordinary item					<u>10,791,046</u>
Change in net assets					721,848
Net assets (liabilities) - beginning					<u>(78,877)</u>
Net assets - ending					<u>\$ 642,971</u>

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2007**

	<u>General Fund</u>	<u>1996 Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash	\$ 101,889	\$ 1,479	\$ 629,204	\$ 10,785	\$ 743,357
Taxes receivable	31,551	5,823	-	-	37,374
Accounts receivable	23,193	-	-	495	23,688
Due from other funds	42,070	-	19,219	243	61,532
Due from other governmental units	1,390,427	-	-	-	1,390,427
Interest receivable	-	7,122	-	-	7,122
Inventory	193,842	-	-	4,063	197,905
Investments	541,113	310,000	-	-	851,113
Prepaid items	103,694	-	-	-	103,694
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 2,427,779</u>	<u>\$ 324,424</u>	<u>\$ 648,423</u>	<u>\$ 15,586</u>	<u>\$ 3,416,212</u>

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2007**

	<u>General Fund</u>	<u>1996 Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities and Fund Balance</b>					
Liabilities					
Accounts payable	\$ 327,501	\$ -	\$ -	\$ -	\$ 327,501
Due to other funds	19,462	40,325	-	1,745	61,532
Due to other governmental units	179,558	-	-	-	179,558
Payroll deductions and withholdings	68,094	-	-	-	68,094
Accrued salaries payable	442,752	-	-	-	442,752
Deferred revenue	31,751	5,823	-	4,080	41,654
	<u>1,069,118</u>	<u>46,148</u>	<u>-</u>	<u>5,825</u>	<u>1,121,091</u>
Total liabilities					
	<u>1,069,118</u>	<u>46,148</u>	<u>-</u>	<u>5,825</u>	<u>1,121,091</u>
Fund Balance					
Reserved for inventory	\$ 193,842	\$ -	\$ -	\$ 4,063	\$ 197,905
Reserved for prepaid items	103,694	-	-	-	103,694
Reserved for debt service	-	278,276	-	-	278,276
Reserved for capital projects	-	-	648,423	-	648,423
Other undesignated	1,061,125	-	-	5,698	1,066,823
	<u>1,358,661</u>	<u>278,276</u>	<u>648,423</u>	<u>9,761</u>	<u>2,295,121</u>
Total fund balance					
	<u>1,358,661</u>	<u>278,276</u>	<u>648,423</u>	<u>9,761</u>	<u>2,295,121</u>
Total liabilities and fund balance	<u>\$ 2,427,779</u>	<u>\$ 324,424</u>	<u>\$ 648,423</u>	<u>\$ 15,586</u>	<u>\$ 3,416,212</u>

**Schoolcraft Community Schools**  
**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets**  
**to Net Assets of Governmental Activities**  
**June 30, 2007**

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<b>Total fund balances for governmental funds</b>	\$ 2,295,121
Total net assets for governmental activities in the statement of net assets is different because:	
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Property taxes	37,574
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	148,000
Capital assets - net of accumulated depreciation	16,291,174
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(609,811)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(156,878)
Bonds payable	(12,997,361)
School bond loan payable	<u>(4,364,848)</u>
<b>Net assets of governmental activities</b>	<u>\$ 642,971</u>

**Schoolcraft Community Schools**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2007**

	General Fund	1996 Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Local sources	\$ 1,421,268	\$ 1,780,676	\$ 2,909	\$ 247,861	\$ 3,452,714
State sources	7,895,752	-	-	11,363	7,907,115
Federal sources	108,891	-	-	88,210	197,101
Intermediate sources	415,040	-	-	-	415,040
 Total revenues	 9,840,951	 1,780,676	 2,909	 347,434	 11,971,970
<b>Expenditures</b>					
Current					
Education					
Instruction	5,728,514	-	-	-	5,728,514
Supporting services	3,352,703	-	-	-	3,352,703
Food services	-	-	-	302,899	302,899
Athletic activities	-	-	-	190,319	190,319
Intergovernmental payments	-	-	-	-	-
Capital outlay	15,748	-	262,348	-	278,096
Debt service					
Principal	-	565,000	-	-	565,000
Interest and other expenditures	4,926	1,215,543	-	-	1,220,469
 Total expenditures	 9,101,891	 1,780,543	 262,348	 493,218	 11,638,000
 Excess (deficiency) of revenues over expenditures	 739,060	 133	 (259,439)	 (145,784)	 333,970

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2007**

	General Fund	1996 Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ -	\$ -	\$ 485,916	\$ 143,370	\$ 629,286
Transfers out	<u>(629,286)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(629,286)</u>
Total other financing sources (uses)	<u>(629,286)</u>	<u>-</u>	<u>485,916</u>	<u>143,370</u>	<u>-</u>
Net change in fund balance	109,774	133	226,477	(2,414)	333,970
Fund balance - beginning	<u>1,248,887</u>	<u>278,143</u>	<u>421,946</u>	<u>12,175</u>	<u>1,961,151</u>
Fund balance - ending	<u>\$ 1,358,661</u>	<u>\$ 278,276</u>	<u>\$ 648,423</u>	<u>\$ 9,761</u>	<u>\$ 2,295,121</u>

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2007**

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<b>Net change in fund balances - Total governmental funds</b>	<b>\$ 333,970</b>
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Total change in net assets reported for governmental activities in the statement of activities is different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Property taxes	11,531
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(612,257)
Capital outlay	170,875
Donations of capital assets	87,000
Sale of capital assets (net book value)	(30,115)

Expenses are recorded when incurred in the statement of activities.

Interest	311,424
Compensated absences	(30,580)

Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Repayments of long-term debt	565,000
Amortization bond issuance costs	(85,000)

<b>Change in net assets of governmental activities</b>	<b>\$ <u>721,848</u></b>
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**Schoolcraft Community Schools**  
**Fiduciary Funds**  
**Statement of Assets and Liabilities**  
**June 30, 2007**

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	<u>Agency Funds</u>
<b>Assets</b>	
Cash	\$ <u>105,139</u>
<b>Liabilities</b>	
Due to agency fund activities	\$ <u>105,139</u>

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2007**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Schoolcraft Community Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

**District-wide Financial Statements**

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted

net assets, and (3) unrestricted net assets. The School District first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from current year activities.

**Fund Financial Statements**

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough

# Schoolcraft Community Schools

## Notes to Financial Statements

### June 30, 2007

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thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

1996 Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt. The School District is not required to establish budgets for debt service funds and so no budget is provided for in this major fund.

Capital Projects Fund – The Building and Site Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, building, equipment, and for remodeling and repairs. The fund is kept open until the purpose for which the fund was created has been accomplished. The School District is not required to

establish budgets for capital projects funds and so no budget is provided for in this major fund.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include Food Service and Athletic Funds. Operating deficits generated by these activities are generally transferred from the General Fund.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

### Assets, Liabilities and Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property taxes and other receivables are shown net of an allowance for uncollectible amounts.

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2007**

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Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2007, the rates are as follows per \$1,000 of assessed value.

General Fund	
Nonhomestead	17.57100
Debt Service Funds	
Homestead	9.05000
Nonhomestead	9.05000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by Kalamazoo County and should be remitted to the School District by May 15.

Investments – Investments are stated at fair value based on a quoted market price. Certificates of deposit are stated at cost which approximates fair value.

Inventories and Prepaid Items – Food service inventories are valued at cost, on a first-in, first-out basis and recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets

are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Equipment and furniture	5-10 years
Buses and other vehicles	5-10 years

Compensated Absences – Employees are provided with sick days each year. If not used, sick days may be carried forward into the next fiscal year. Once ninety (90) days of sick leave have been accumulated, teachers are paid \$25/day for unused sick leave accumulated over the ninety days. The monies will be paid at the end of the school year. Upon retirement, teachers will be paid \$25 for each day of unused sick leave accumulated up to 100 days. Employees that leave the School District's employ with accumulated sick days forfeit the right to receive payment thereof.

Support staff follows the same policy as teachers except that the accumulated sick days are paid on a graduated rate from \$5 to \$20 per day based on the normal number of hours in their workday.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2007**

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**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data**

Comparative data is not included in the School District's financial statements.

**Eliminations and Reclassifications**

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

**Upcoming Accounting and Reporting Change**

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions*. The new pronouncement provides guidance for school districts in recognizing the cost of retiree health care. The new rules will cause district-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses how to account for pollution remediation activities of the effects of existing pollution; it does not

include prevention or control activities or remediation required upon the retirement of an asset. In general, the new rules will cause the district-wide financial statements to recognize a liability on the current value of expected costs as estimated using the expected cash flows method. This statement is effective for the year ending June 30, 2009.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby cancel all encumbrances. These appropriations are reestablished at the beginning of the year.

The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the Act if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2007**

**Excess of Expenditures over Appropriations**

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
Food service Fund	\$ 290,950	\$ 302,899	\$ 11,949
Athletics Fund	187,000	190,319	3,319

**NOTE 3 - DEPOSITS AND INVESTMENTS**

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 743,357	\$ 105,139	\$ 848,496
Investments	851,113	-	851,113
	<u>\$ 1,594,470</u>	<u>\$ 105,139</u>	<u>\$ 1,699,609</u>

As of yearend, investments shown on the School District's Statement of Financial Position are treated as deposits for the purpose of this disclosure. The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 1,696,109
Petty cash and cash on hand	3,500
Total	<u>\$ 1,699,609</u>

*Interest rate risk* – The District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

*Credit risk* – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

*Concentration of credit risk* – The District has no policy that would limit the amount that may be invested with any one issuer.

*Custodial credit risk – deposits* – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year end, \$ \$1,715,947 of the District's bank balance of \$ \$1,815,947 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2007**

**NOTE 4 - CAPITAL ASSETS**

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 148,000	\$ -	\$ -	\$ 148,000
Capital assets being depreciated				
Buildings and additions	22,786,217	87,000	-	22,873,217
Equipment and furniture	1,946,235	103,510	123,671	1,926,074
Buses and other vehicles	709,615	67,365	79,133	697,847
Total capital assets being depreciated	25,442,067	257,875	202,804	25,497,138
Less accumulated depreciation for				
Buildings and additions	6,771,659	463,508	-	7,235,167
Equipment and furniture	1,524,078	102,159	116,389	1,509,848
Buses and other vehicles	470,659	46,590	56,300	460,949
Total accumulated depreciation	8,766,396	612,257	172,689	9,205,964
Net capital assets being depreciated	16,675,671	(354,382)	30,115	16,291,174
Net capital assets	\$ 16,823,671	\$ (354,382)	\$ 30,115	\$ 16,439,174

Depreciation expense was charged to activities of the School District as follows:

<b>Governmental activities</b>	
Instruction	\$ 450,113
Support services	138,527
Food services	2,580
Athletic activities	21,037
Total governmental activities	\$ 612,257

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, TRANSFERS**

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
Athletics	General	\$ 1,745
General	Lunch	243
General	Capital Projects	19,219
Debt Service	General	40,325
		<u>\$ 61,532</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers were made during the year from the General Fund to the Capital Projects Fund, and the Athletic Fund in the amount of \$485,916 and \$143,370, respectively. The transfers to the Athletics Fund were made to cover the costs of the School District's programs that were in excess of revenues generated from those activities. The transfer to the Capital Projects Fund consisted of rental income collected and the Countywide Enhancement millage revenue received by the School District during the year. The Board of Education elected to earmark these funds to offset future costs related to the technology and capital improvements.

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2007**

**NOTE 6 - DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes	\$ 37,574	\$ -
Lunch monies on account	<u>-</u>	<u>4,080</u>
Total	<u>\$ 37,574</u>	<u>\$ 4,080</u>

**NOTE 7 - SHORT-TERM DEBT**

In years past, the School District issued a state aid anticipation note in advance of state aid collections, depositing the proceeds in the General Fund. This note is necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30<sup>th</sup>.

This year the School District, with the permission of the State of Michigan, opted to obtain a line of credit through a local bank for the same purpose as discussed above. The line of credit has a maximum borrowing limit of \$1,000,000 with interest accruing at 7% per annum based on the outstanding balance.

Short-term debt activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Ending Balance</u>
State aid anticipation note	\$ 700,000	\$ -	\$ 700,000	\$ -
Line of credit	<u>-</u>	<u>992,000</u>	<u>992,000</u>	<u>-</u>
Total short-term notes	<u>700,000</u>	<u>992,000</u>	<u>1,692,000</u>	<u>-</u>

**NOTE 8 - LONG-TERM DEBT**

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Government obligation bonds	\$ 14,035,000	\$ -	\$ 565,000	\$ 13,470,000	\$ 595,000
Durant resolution package bonds	82,361	-	-	82,361	-
School Bond Loan	4,364,848	-	-	4,364,848	-
Compensated absences	126,298	156,878	126,298	156,878	-
Deferred amount on refunding	<u>(640,000)</u>	<u>-</u>	<u>(85,000)</u>	<u>(555,000)</u>	<u>-</u>
Total	<u>\$ 17,968,507</u>	<u>\$ 156,878</u>	<u>\$ 606,298</u>	<u>\$ 17,519,087</u>	<u>\$ 595,000</u>



**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2007**

General obligation bonds payable at year end, consists of the following:

\$8,220,000 serial bond due in annual installments of \$65,000 to \$740,000 through May 2026, interest at 4.05% to 4.60%	\$ 7,675,000
\$5,955,000 serial bond due in annual installments of \$20,000 to \$510,000 through May 2026, interest at 4.05% to 4.875%	<u>5,795,000</u>
Total general obligation bonded debt	<u>\$ 13,470,000</u>

Future principal and interest requirements for bonded debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 595,000	\$ 616,948	\$ 1,211,948
2009	625,000	592,522	1,217,522
2010	655,000	566,546	1,221,546
2011	695,000	538,996	1,233,996
2012	725,000	509,074	1,234,074
2013-2017	3,735,000	2,047,904	5,782,904
2018-2022	3,600,000	1,193,442	4,793,442
2023-2026	<u>2,840,000</u>	<u>339,934</u>	<u>3,179,934</u>
Total	<u>\$ 13,470,000</u>	<u>\$ 6,405,366</u>	<u>\$ 19,875,366</u>

The general obligation bonds are payable from the Debt Service Funds. As of yearend, the fund had a balance of \$ 278,276 to pay this debt. Future debt and interest will be payable from future tax levies.

Other bonds consist of the following:

\$139,487 Durant Refunding serial bonds due in annual installments through 5/15/2013; interest 4.76% due annually	<u>\$ 82,361</u>
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These bond obligations issued by PA 142 are payable solely from and are secured solely by an assignment by each School District of

certain categorical State School Aid payments. The State Legislature has no obligation to make such appropriations. In the event the Legislature fails to appropriate funds, the School District is under no obligation for repayment of the debt obligation issued by PA 142.

Future principal and interest requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ -	\$ -	\$ -
2009	7,763	2,033	9,796
2010	8,132	1,663	9,795
2011	8,519	1,276	9,795
2012	8,925	870	9,795
2013	<u>49,022</u>	<u>16,789</u>	<u>65,811</u>
Total	<u>\$ 82,361</u>	<u>\$ 22,631</u>	<u>\$ 104,992</u>

### State School Bond Loan

The State School Bond Loan consists of a borrowing agreement with the State of Michigan for the purpose of meeting the financing of current debt maturities on the School District's bond issues. In prior years, the School District issued bonds to renovate School District facilities. The bond election, as passed by the voters, specified that the School District debt millage would not exceed the pre-bond vote millage of 9.05 mills, but instead the election permitted the School District to extend this levy through the year 2026. Since the monies generated by the 9.05 mills were not sufficient to cover the entire debt service requirements of the School District in prior years, it was necessary for the School District to borrow a total of \$ 4,364,848 to meet debt service requirements. Management of the School District anticipates that as the other bonds mature, the revenues provided by the debt millage will be sufficient to satisfy the future debt service requirements of the bonds issued and all necessary borrowing from the State School Bond Loan Fund. During the year, the School District repaid \$563,000 of accrued interest and had an outstanding

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2007**

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balance at yearend of \$ 4,364,848 , from the State School Bond Loan Fund. The School District has agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer.

**Compensated Absences**

Accrued compensated absences, including payroll taxes on these benefits at year end is \$156,878. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Interest expenditures for the fiscal year in the General Fund and Debt Service Funds were \$4,926 and \$1,215,543, respectively.

**Defeased Debt**

In prior years, the School District has defeased various bonds issued by creating separate irrevocable trust funds. The new debt was issued and the net proceeds of each refunding were placed in separate special escrow accounts and invested in securities of the U.S. Government and its agencies. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements.

The final payment dates are May 2009 and 2026. As of yearend, the amount of defeased debt outstanding but removed from the School District's financial statements is as follows:

1988 Issue refunded	\$ 675,000
1996 Issue refunded	<u>12,915,000</u>
Total	<u>\$ 13,590,000</u>

**NOTE 9 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District's unemployment compensation expense for the year was \$8,781. At June 30, 2006 the School District has recorded a \$9,528 unemployment compensation liability.

**NOTE 10 - DEFINED BENEFIT PENSION PLAN**

**Plan Description**

The School District has a defined benefit pension plan covering substantially all employees. The plan is operated by the State of Michigan's Public School Employees Retirement System (MPERS), which is a cost-sharing public employee retirement system (PERS).

The pension plan provides retirement, survivor and disability benefits to plan members and their beneficiaries.

# Schoolcraft Community Schools

## Notes to Financial Statements

### June 30, 2007

MPERS operates within the Michigan Department of Management and Budget, Office of Retirement Systems who has the authority to establish and amend benefit provisions. The Michigan Department of Management and Budget issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671 or calling 800-381-5111.

#### Funding Policy

The School is required by State statute to contribute to MPERS an actuarially determined percentage of payroll for all participating employees. Additionally, employees participating in the Member Investment Plan contributed 3% to 4.3% of their covered wages through payroll deduction. In addition to retirement benefits, a portion of the total MPERS contribution is allocated to cover health, dental and vision benefits. The following table discloses pertinent information relative to MPERS funding for the three-year period beginning July 1, 2004 through June 30, 2007.

	2007	2006	2005
Funding percentage range	16.34-17.74%	14.87-16.34%	12.99-14.87%
Total payroll	5,489,942	5,519,523	5,133,313
Total covered payroll	5,376,602	5,477,207	5,088,079
School contributions	938,746	873,333	643,208
Employee MIP contributions	156,544	156,331	146,476
Tax deferred payment program	48,299	48,484	46,150
Portion of school contribution covering health, dental and vision benefits	37%	40%	44%

#### Trend Information

Ten-year historical trend information is presented in the September 30, 2006, PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. The total benefit obligations and net assets available for benefits as of September 30, 2005, the latest date for which information is available, approximates \$ 48.2 billion and \$ 38.2 billion, respectively. The School's share of the total current actuarially determined employer contribution requirement under MPERS was less than 1% for the year ended September 30, 2006.

#### Post Employment Benefits

In addition to the pension benefits described above, the School District provides post-retirement health care, dental, and vision benefits for retirees and beneficiaries through Michigan Public School Employees Retirement System (MPERS).

Expenditures for these benefits are recognized on a cash disbursement basis. During the year ended September 30, 2006, statewide expenditures of \$ 694 million were recognized for post-retirement health care, dental and vision. This represented approximately 20% of the total expenditures of the Michigan Public School Employees Retirement System.

#### NOTE 11 - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2007**

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**NOTE 12 - EXTRAORDINARY ITEM**

In February 2007, the Village of Schoolcraft transferred to the School District a building that is situated on the School District's land and is used as a recreation center. The net book value on the Village's books at time of transfer was approximately \$87,000 which is considered to be the roughly the market value of the building. There was no monetary transaction in the transfer between the School District and the Village. The School District is currently considering what course of action to take with the building

**NOTE 13 - SUBSEQUENT EVENTS**

Subsequent to June 30, 2007, the School District entered into a sales agreement to sell the building trade construction home. The tentative sales price is \$195,000 with an estimated closing date of September 6, 2007.

In August 2007 the School District entered into a lease agreement to lease four Savin 8055SP copiers. The lease agreement calls for monthly payments of \$1,234 for sixty months beginning September 15, 2007. The monthly payment includes interest which is approximately 9.40%. The lease meets the criteria to be accounted for as a capital lease has a capitalized cost of \$58,650.

The School District intends to obtain a line of credit with Kalamazoo County State Bank in lieu of a state aid anticipation note through the Michigan Municipal Bond Authority. The Board of Education has authorized the School District to obtain the line of credit but the process has not begun as of the date of this report.

## REQUIRED SUPPLEMENTAL INFORMATION

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**Schoolcraft Community Schools**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
<b>Revenues</b>				
Local sources	\$ 1,478,100	\$ 1,567,600	\$ 1,421,268	\$ (146,332)
State sources	7,664,548	7,780,448	7,895,752	115,304
Federal sources	98,000	107,100	108,891	1,791
Intermediate sources	390,000	413,000	415,040	2,040
 Total revenues	 9,630,648	 9,868,148	 9,840,951	 (27,197)
<b>Expenditures</b>				
Instruction				
Basic programs	4,596,700	4,669,021	4,636,438	(32,583)
Added needs	1,296,140	1,335,507	1,092,076	(243,431)
Supporting services				
Pupil	335,800	337,000	333,072	(3,928)
Instructional staff	404,400	302,800	301,917	(883)
General administration	213,305	215,395	214,305	(1,090)
School administration	577,700	573,500	567,815	(5,685)
Business	199,300	193,600	197,868	4,268
Operations and maintenance	1,195,600	1,153,000	1,114,097	(38,903)
Pupil transportation services	517,800	500,700	505,710	5,010
Central	157,200	147,200	117,919	(29,281)
Capital outlay	16,000	11,439	15,748	4,309
Debt service				
Interest and fiscal charges	36,000	18,000	4,926	(13,074)
 Total expenditures	 \$ 9,545,945	 \$ 9,457,162	 \$ 9,101,891	 \$ (355,271)

**Schoolcraft Community Schools**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2007**

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	<u>Budgeted Amounts</u>			Over (Under) Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Excess of revenues over expenditures	\$ 84,703	\$ 410,986	\$ 739,060	\$ 328,074
<b>Other Financing Sources (Uses)</b>				
Transfers out	<u>(612,000)</u>	<u>(632,000)</u>	<u>(629,286)</u>	<u>2,714</u>
Net change in fund balance	(527,297)	(221,014)	109,774	330,788
Fund balance - beginning	<u>1,248,887</u>	<u>1,248,887</u>	<u>1,248,887</u>	<u>-</u>
Fund balance - ending	<u>\$ 721,590</u>	<u>\$ 1,027,873</u>	<u>\$ 1,358,661</u>	<u>\$ 330,788</u>

## OTHER SUPPLEMENTAL INFORMATION

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**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2007**

	<u>Special Revenue Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service</u>	<u>Athletics</u>	
<b>Assets</b>			
Cash	\$ 7,840	\$ 2,945	\$ 10,785
Accounts receivable	495	-	495
Due from other funds	243	-	243
Inventory	<u>4,063</u>	<u>-</u>	<u>4,063</u>
Total assets	<u>\$ 12,641</u>	<u>\$ 2,945</u>	<u>\$ 15,586</u>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities</b>			
Due to other funds	\$ -	\$ 1,745	\$ 1,745
Deferred revenue	<u>4,080</u>	<u>-</u>	<u>4,080</u>
Total liabilities	<u>4,080</u>	<u>1,745</u>	<u>5,825</u>
<b>Fund Balance</b>			
Reserved for inventory	4,063	-	4,063
Other undesignated	<u>4,498</u>	<u>1,200</u>	<u>5,698</u>
Total fund balance	<u>8,561</u>	<u>1,200</u>	<u>9,761</u>
Total liabilities and fund balance	<u>\$ 12,641</u>	<u>\$ 2,945</u>	<u>\$ 15,586</u>

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2007**

	<u>Special Revenue Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service</u>	<u>Athletics</u>	
<b>Revenues</b>			
Local sources	\$ 200,912	\$ 46,949	\$ 247,861
State sources	11,363	-	11,363
Federal sources	88,210	-	88,210
Total revenues	<u>300,485</u>	<u>46,949</u>	<u>347,434</u>
<b>Expenditures</b>			
Current			
Education			
Food services	302,899	-	302,899
Athletic activities	<u>-</u>	<u>190,319</u>	<u>190,319</u>
Total expenditures	<u>302,899</u>	<u>190,319</u>	<u>493,218</u>
Excess (deficiency) of revenues over expenditures	<u>(2,414)</u>	<u>(143,370)</u>	<u>(145,784)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	<u>-</u>	<u>143,370</u>	<u>143,370</u>
Net change in fund balance	(2,414)	-	(2,414)
Fund balance - beginning	<u>10,975</u>	<u>1,200</u>	<u>12,175</u>
Fund balance - ending	<u>\$ 8,561</u>	<u>\$ 1,200</u>	<u>\$ 9,761</u>

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Comparative Balance Sheet**  
**June 30, 2007**

	2007	2006
<b>Assets</b>		
Cash	\$ 101,889	\$ 122,789
Taxes receivable	31,551	22,043
Accounts receivable	23,193	100
Due from other funds	42,070	37,590
Due from other governmental units	1,390,427	1,413,546
Inventory	193,842	-
Investments	541,113	1,352,742
Prepaid items	103,694	4,236
Total assets	<u>\$ 2,427,779</u>	<u>\$ 2,953,046</u>
<b>Liabilities and Fund Balance</b>		
<b>Liabilities</b>		
Accounts payable	\$ 327,501	\$ 285,349
State aid anticipation note payable	-	700,000
Due to other funds	19,462	3,899
Due to other governmental units	179,558	179,558
Payroll deductions and withholdings	68,094	60,164
Accrued expenditures	-	17,647
Accrued salaries payable	442,752	431,499
Deferred revenue	31,751	26,043
Total liabilities	<u>1,069,118</u>	<u>1,704,159</u>
<b>Fund Balance</b>		
Reserved for inventory	193,842	-
Reserved for prepaid items	103,694	4,236
Other undesignated	1,061,125	1,244,651
Total fund balance	<u>1,358,661</u>	<u>1,248,887</u>
Total liabilities and fund balance	<u>\$ 2,427,779</u>	<u>\$ 2,953,046</u>

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Revenues Compared to Budget**  
**For the Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue from local sources</b>				
Property tax levy	\$ 1,105,300	\$ 1,204,000	\$ 1,210,741	\$ 6,741
Earnings on investments	31,700	16,000	23,743	7,743
Community service activities	40,000	40,000	50,000	10,000
Other local revenues	301,100	307,600	136,784	(170,816)
Total revenues from local sources	<u>1,478,100</u>	<u>1,567,600</u>	<u>1,421,268</u>	<u>(146,332)</u>
<b>Revenues from state sources</b>				
Grants - unrestricted	7,547,200	7,637,600	7,535,785	(101,815)
Grants - restricted	117,348	140,448	358,090	217,642
State payments in lieu of taxes	-	2,400	1,877	(523)
Total revenues from state sources	<u>7,664,548</u>	<u>7,780,448</u>	<u>7,895,752</u>	<u>115,304</u>
<b>Revenues from federal sources</b>				
Grants	<u>98,000</u>	<u>107,100</u>	<u>108,891</u>	<u>1,791</u>
<b>Intermediate sources</b>				
ISD collected millage	<u>390,000</u>	<u>413,000</u>	<u>415,040</u>	<u>2,040</u>
Total revenue and other financing sources	<u>\$ 9,630,648</u>	<u>\$ 9,868,148</u>	<u>\$ 9,840,951</u>	<u>\$ (27,197)</u>

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Expenditures Compared to Budget**  
**For the Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Basic program - elementary</b>				
Salaries	\$ 1,560,200	\$ 1,595,600	\$ 1,565,870	\$ (29,730)
Employee benefits	804,100	831,900	828,171	(3,729)
Purchased services	1,900	1,400	612	(788)
Supplies and materials	73,600	55,661	52,472	(3,189)
Total elementary	<u>2,439,800</u>	<u>2,484,561</u>	<u>2,447,125</u>	<u>(37,436)</u>
<b>Basic program - middle school</b>				
Salaries	513,000	521,000	527,539	6,539
Employee benefits	260,900	268,150	274,377	6,227
Supplies and materials	26,500	13,000	11,724	(1,276)
Total middle school	<u>800,400</u>	<u>802,150</u>	<u>813,640</u>	<u>11,490</u>
<b>Basic program - high school</b>				
Salaries	817,300	833,800	829,024	(4,776)
Employee benefits	441,800	457,400	462,544	5,144
Supplies and materials	91,200	85,210	78,383	(6,827)
Other	1,800	1,500	920	(580)
Total high school	<u>1,352,100</u>	<u>1,377,910</u>	<u>1,370,871</u>	<u>(7,039)</u>
<b>Basic program - pre-school</b>				
Other	<u>2,500</u>	<u>2,500</u>	<u>2,363</u>	<u>(137)</u>
<b>Basic program - summer school</b>				
Salaries	1,300	1,300	1,755	455
Employee benefits	400	400	421	21
Supplies and materials	200	200	263	63
Total summer school	<u>1,900</u>	<u>1,900</u>	<u>2,439</u>	<u>539</u>

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Expenditures Compared to Budget**  
**For the Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Added needs - special education</b>				
Salaries	\$ 512,200	\$ 509,400	\$ 489,968	\$ (19,432)
Employee benefits	225,000	230,500	224,998	(5,502)
Purchased services	600	600	298	(302)
Supplies and materials	5,350	4,940	4,613	(327)
Other	500	410	-	(410)
Total special education	<u>743,650</u>	<u>745,850</u>	<u>719,877</u>	<u>(25,973)</u>
<b>Added needs - compensatory education</b>				
Salaries	69,400	73,300	70,811	(2,489)
Employee benefits	29,400	20,600	18,312	(2,288)
Purchased services	500	500	-	(500)
Supplies and materials	1,000	1,000	-	(1,000)
Total compensatory education	<u>100,300</u>	<u>95,400</u>	<u>89,123</u>	<u>(6,277)</u>
<b>Added needs - career and technical education</b>				
Salaries	112,825	112,825	111,300	(1,525)
Employee benefits	57,500	57,400	56,817	(583)
Purchased services	5,940	5,940	5,940	-
Supplies and materials	209,425	210,092	13,008	(197,084)
Other	66,500	108,000	96,011	(11,989)
Total career and technical education	<u>452,190</u>	<u>494,257</u>	<u>283,076</u>	<u>(211,181)</u>
<b>Pupil - guidance services</b>				
Salaries	92,300	92,300	92,419	119
Employee benefits	30,500	30,500	30,895	395
Supplies and materials	3,500	3,500	2,990	(510)
Other	4,500	4,500	2,141	(2,359)
Total guidance services	<u>130,800</u>	<u>130,800</u>	<u>128,445</u>	<u>(2,355)</u>

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Expenditures Compared to Budget**  
**For the Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Pupil - health services</b>				
Purchased services	\$ 20,000	\$ 21,200	\$ 21,031	\$ (169)
Supplies and materials	1,000	1,000	560	(440)
Total health services	<u>21,000</u>	<u>22,200</u>	<u>21,591</u>	<u>(609)</u>
<b>Pupil - psychological services</b>				
Salaries	59,500	59,500	59,424	(76)
Employee benefits	29,700	29,700	29,470	(230)
Supplies and materials	700	700	643	(57)
Other	550	550	695	145
Total psychological services	<u>90,450</u>	<u>90,450</u>	<u>90,232</u>	<u>(218)</u>
<b>Pupil - speech services</b>				
Salaries	60,900	60,900	60,846	(54)
Employee benefits	30,100	30,100	29,872	(228)
Supplies and materials	500	500	499	(1)
Other	550	550	504	(46)
Total speech services	<u>92,050</u>	<u>92,050</u>	<u>91,721</u>	<u>(329)</u>
<b>Pupil - other support services</b>				
Other	<u>1,500</u>	<u>1,500</u>	<u>1,083</u>	<u>(417)</u>
<b>Instructional staff - improvement of education</b>				
Salaries	102,600	16,000	15,719	(281)
Employee benefits	12,100	2,800	5,142	2,342
Total improvement of education	<u>114,700</u>	<u>18,800</u>	<u>20,861</u>	<u>2,061</u>

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Expenditures Compared to Budget**  
**For the Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Instructional staff - educational media services</b>				
Salaries	\$ 67,200	\$ 67,200	\$ 67,291	\$ 91
Employee benefits	26,500	26,700	26,024	(676)
Supplies and materials	22,300	22,300	20,601	(1,699)
Other	3,500	3,500	2,267	(1,233)
Total educational media services	119,500	119,700	116,183	(3,517)
<b>Instructional staff - supervision and direction of instructional staff</b>				
Purchased services	23,000	23,000	21,556	(1,444)
<b>Instructional staff - other services</b>				
Salaries	81,000	81,000	89,312	8,312
Employee benefits	20,700	20,700	18,113	(2,587)
Purchased services	40,000	35,000	29,206	(5,794)
Supplies and materials	1,500	1,000	2,886	1,886
Other	4,000	3,600	3,800	200
Total other instructional staff services	147,200	141,300	143,317	2,017
<b>General administration - board of education</b>				
Salaries	805	805	805	-
Purchased services	42,500	34,400	31,434	(2,966)
Other	3,200	3,200	2,610	(590)
Total board of education	46,505	38,405	34,849	(3,556)



**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Expenditures Compared to Budget**  
**For the Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>General administration - executive administration</b>				
Salaries	\$ 108,800	\$ 117,900	\$ 122,759	\$ 4,859
Employee benefits	43,000	48,300	48,014	(286)
Purchased services	2,500	2,500	1,577	(923)
Supplies and materials	10,500	6,790	5,784	(1,006)
Other	2,000	1,500	1,322	(178)
Total executive administration	<u>166,800</u>	<u>176,990</u>	<u>179,456</u>	<u>2,466</u>
<b>School administration - office of the principal</b>				
Salaries	408,300	408,300	405,345	(2,955)
Employee benefits	160,600	160,600	158,482	(2,118)
Purchased services	3,000	500	211	(289)
Other	2,800	1,100	1,052	(48)
Total office of the principal	<u>574,700</u>	<u>570,500</u>	<u>565,090</u>	<u>(5,410)</u>
<b>School administration - other</b>				
Supplies and materials	<u>3,000</u>	<u>3,000</u>	<u>2,725</u>	<u>(275)</u>
<b>Business - fiscal services</b>				
Salaries	106,200	105,000	104,105	(895)
Employee benefits	38,300	36,600	44,649	8,049
Purchased services	28,000	31,500	29,681	(1,819)
Supplies and materials	5,000	4,000	2,420	(1,580)
Other	1,000	1,000	728	(272)
Total fiscal services	<u>178,500</u>	<u>178,100</u>	<u>181,583</u>	<u>3,483</u>

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Expenditures Compared to Budget**  
**For the Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Business - other</b>				
Purchased services	\$ 5,800	\$ 5,500	\$ 5,460	\$ (40)
Other	15,000	10,000	10,825	825
Total other business	<u>20,800</u>	<u>15,500</u>	<u>16,285</u>	<u>785</u>
 <b>Operations and maintenance - operating building services</b>				
Salaries	411,600	389,600	395,596	5,996
Employee benefits	172,300	174,000	165,902	(8,098)
Purchased services	487,500	465,200	419,903	(45,297)
Supplies and materials	124,200	124,200	132,696	8,496
Total operating building services	<u>1,195,600</u>	<u>1,153,000</u>	<u>1,114,097</u>	<u>(38,903)</u>
 <b>Pupil transportation services</b>				
Salaries	258,300	244,800	254,169	9,369
Employee benefits	120,800	117,600	118,691	1,091
Purchased services	90,200	89,800	80,021	(9,779)
Supplies and materials	48,500	48,500	52,829	4,329
Total transportation services	<u>517,800</u>	<u>500,700</u>	<u>505,710</u>	<u>5,010</u>
 <b>Central - staff/personnel and communication services</b>				
Purchased services	14,000	14,000	10,075	(3,925)
Supplies and materials	10,000	7,500	3,760	(3,740)
Total staff/personnel and communication services	<u>24,000</u>	<u>21,500</u>	<u>13,835</u>	<u>(7,665)</u>

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Expenditures Compared to Budget**  
**For the Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Central - support services technology</b>				
Salaries	\$ 56,700	\$ 56,700	\$ 51,865	\$ (4,835)
Employee benefits	1,900	1,900	320	(1,580)
Purchased services	49,000	52,000	41,703	(10,297)
Supplies and materials	25,000	14,500	10,196	(4,304)
Other	600	600	-	(600)
Total support services technology	<u>133,200</u>	<u>125,700</u>	<u>104,084</u>	<u>(21,616)</u>
<b>Capital outlay</b>				
Basic program - elementary	2,500	1,939	2,403	464
Added needs - career and technical education	4,500	4,500	7,016	2,516
Operations and maintenance - operating building services	-	-	2,011	2,011
Central - support services technology	<u>9,000</u>	<u>5,000</u>	<u>4,318</u>	<u>(682)</u>
Total capital outlay	<u>16,000</u>	<u>11,439</u>	<u>15,748</u>	<u>4,309</u>
<b>Debt service</b>				
Interest and other expenditures	<u>36,000</u>	<u>18,000</u>	<u>4,926</u>	<u>(13,074)</u>
<b>Other financing uses</b>				
Transfers out	<u>612,000</u>	<u>632,000</u>	<u>629,286</u>	<u>(2,714)</u>
Total expenditures and financing uses	<u>\$ 10,157,945</u>	<u>\$ 10,089,162</u>	<u>\$ 9,731,177</u>	<u>\$ (357,985)</u>

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**Fiduciary Funds**  
**Statement of Changes in Amounts Due to Student Groups**  
**For the Year Ended June 30, 2007**

	Due to (From) Student Groups June 30, 2006	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2007
4th and 5th grade council	\$ 225	\$ -	\$ -	\$ 225
Art	9	323	212	120
Band	162	1,361	812	711
Bowling	-	168	92	76
Building Trades	15	-	-	15
Cheerleading	805	8,191	6,548	2,448
Chess club	160	-	-	160
Class of 2006-07	6,282	615	3,385	3,512
Class of 2007-08	2,972	15,531	15,804	2,699
Class of 2008-09	717	5,961	2,464	4,214
Class of 2009-10	-	2,117	1,220	897
Common bond	3,448	3,480	1,435	5,493
Elementary library	621	3,078	3,017	682
Elementary service	1,877	3,597	2,074	3,400
Evans	16	-	-	16
French	3,207	3,846	4,731	2,322
Tennis (Gary Steeby Memorial)	4	238	242	-
Girls recreation	1,195	4,192	4,970	417
Golf	327	4,095	2,614	1,808
High school choir	935	3,310	3,180	1,065
High school council	1,846	4,957	3,007	3,796
High school drama	2,232	448	1,385	1,295
High school library	311	65	81	295
High school service	3,418	10,001	11,730	1,689
High school track club - boys	10	1,259	1,203	66
High school track club - girls	72	1,694	1,449	317
High school yearbook	9,096	16,955	18,306	7,745
Carried forward	39,962	95,482	89,961	45,483

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**Fiduciary Funds**  
**Statement of Changes in Amounts Due to Student Groups**  
**For the Year Ended June 30, 2007**

	Due to (From) Student Groups June 30, 2006	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2007
Brought forward	\$ 39,962	\$ 95,482	\$ 89,961	\$ 45,483
Junior program	971	4,632	4,128	1,475
Key club	96	886	683	299
Latch key	643	61,540	62,087	96
Middle school 7th grade camp	3,734	17,070	16,187	4,617
Middle school bacstop	1,856	19,851	12,676	9,031
Middle school council	864	368	85	1,147
Middle school library	836	1,415	1,623	628
Middle school musical	5,175	6,280	3,373	8,082
Middle school office	652	-	14	638
Middle school service	450	5,186	4,915	721
Middle school track club	51	1,850	1,709	192
Middle school varsity	1,064	5,239	4,628	1,675
Middle school volleyball	1	2,659	2,660	-
Middle school wrestling	-	1,444	1,438	6
Middle school yearbook	1,897	2,220	2,121	1,996
National honors	124	198	78	244
NOW checking account interest	(89)	653	704	(140)
Presidential classroom	1,122	1,400	1,607	915
Revolving	127	1,656	1,711	72
SADD	362	-	-	362
Senior '06	3,234	-	3,234	-
Carried forward	<u>63,132</u>	<u>230,029</u>	<u>215,622</u>	<u>77,539</u>

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**Fiduciary Funds**  
**Statement of Changes in Amounts Due to Student Groups**  
**For the Year Ended June 30, 2007**

	Due to (From) Student Groups June 30, 2006	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2007
Brought forward	\$ 63,132	\$ 230,029	\$ 215,622	\$ 77,539
Ski club	11,803	6,616	4,536	13,883
Spanish club	95	210	104	201
Upper elementary council	10	-	-	10
Upper elementary library	307	5,948	5,977	278
Upper elementary service	675	7,117	6,403	1,389
Varsity	4,664	17,145	17,722	4,087
Varsity II	534	961	624	871
Varsity III	4,690	6,230	6,074	4,846
Volleyball club	1,148	8,595	7,755	1,988
Wrestling	47	-	-	47
Total	<u>\$ 87,105</u>	<u>\$ 282,851</u>	<u>\$ 264,817</u>	<u>\$ 105,139</u>

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**Schedule of Outstanding Bonded Indebtedness**  
**June 30, 2007**

Year Ending June 30,	1998 Refunding Bonds	1999 Refunding Bonds	Total
2008	\$ 575,000	\$ 20,000	\$ 595,000
2009	605,000	20,000	625,000
2010	635,000	20,000	655,000
2011	670,000	25,000	695,000
2012	700,000	25,000	725,000
2013	735,000	25,000	760,000
2014	740,000	25,000	765,000
2015	730,000	25,000	755,000
2016	220,000	510,000	730,000
2017	215,000	510,000	725,000
2018	215,000	510,000	725,000
2019	215,000	510,000	725,000
2020	210,000	510,000	720,000
2021	205,000	510,000	715,000
2022	205,000	510,000	715,000
2023	205,000	510,000	715,000
2024	200,000	510,000	710,000
2025	200,000	510,000	710,000
2026	195,000	510,000	705,000
Total	\$ 7,675,000	\$ 5,795,000	\$ 13,470,000
Principal payments due first day of	May	May	
Interest payments due first day of	May and November	May and November	
Interest rate	4.05% - 4.60%	4.05% - 4.80%	
Original issue	\$ 8,220,000	\$ 5,955,000	



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**Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Members of the Board of Education  
Schoolcraft Community Schools  
Schoolcraft, Michigan

We have audited the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of Schoolcraft Community Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated September 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Schoolcraft Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Schoolcraft Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Schoolcraft Community Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Schoolcraft Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Schoolcraft Community Schools in a separate letter dated September 20, 2007.

This report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Yeo & Yeo, P.C.*

Kalamazoo, Michigan  
September 20, 2007

September 20, 2007

To the Management and  
Board of Directors of  
Schoolcraft Community Schools

In planning and performing our audit of the financial statements of Schoolcraft Community Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Schoolcraft Community Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We noted no deficiencies that we consider to be significant deficiencies in internal control however we considered the following to be a control deficiency:

#### **QuickBooks Accounting Software**

We noted that the School District uses QuickBooks for its accounting software in its Activity Fund. In many cases QuickBooks is the best option for an entity's accounting software and there are very good business reasons to use QuickBooks. It is however important that Management and those charged with governance understand the inherent limitations of the QuickBooks accounting software package. QuickBooks, unlike most other accounting software packages, does not provide for an irreversible closing of fiscal years. Instead, QuickBooks provides an option to password protect the accounting records up through a specific date. We encourage all users of QuickBooks to implement this option and password protect those years which have been audited, after ensuring that QuickBooks records match the audited financial statements. This password protection however does still allow changes to prior periods once the password is entered. The importance of not making changes to password protected periods needs to be instilled in all who know the password. In addition, QuickBooks does not void checks per se. When the void check option is chosen in QuickBooks it is in effect deleting the check as of the date the check was written rather than voiding the check as of the date you choose to void it. This poses problems when the check issue date and the void date are in different fiscal years.

There are broad categories of permissions which should be reviewed and set for each particular user, based on their needs. One of these categories is the ability to change or delete transactions and the ability to change or delete transactions before the closing date. Remember that the Admin user automatically has rights to all broad categories, and therefore may not be the correct user set-up for some users. These categories however are very broad. Anyone given access to input accounts receivable invoices has access to record the receipt of accounts receivable monies and create write-offs of accounts receivables. Therefore QuickBooks cannot be relied upon to enforce segregation of duties.

We recommend that you seriously consider the costs and benefits of QuickBooks software as compared to the School District's needs. We also recommend that this consideration be done on an annual basis as facts and circumstances change throughout the year. We are neither recommending for nor against continuing to use QuickBooks as the School District's accounting software, we are simply recommending that the decision made by Management and those charged with governance be a fully informed decision.

#### **Other Matters**

Certain other matters came to our attention that we feel obligated to comment on:

*Interfund Balances* – At June 30, 2007 the School District had the following interfund balances due to or from each other. The School District should issue the checks necessary from the respective funds to clear out the balances.

<u>Funds Drawn On</u>	<u>Fund Check Payable To</u>	<u>Amount</u>
Debt Service	General	\$40,325
General	Capital Projects	19,219
Athletics	General	1,745
General	Lunch	243

*Athletic Event Ticket Sales* – In prior year we suggested that the School District implement additional procedures to control athletic event ticket sales. Based on discussions with management, the School District has made some improvements in the collections and controls processes during the year, especially in the area of football gate receipts. Other sporting events do not draw as many spectators and as a result, smaller ticket revenues are generated at those events.

We appreciate that management has acknowledged the need for better controls and has made changes. We also realize that there is a cost-benefit relationship with implementing good controls. We suggest the School District continually investigate ways in which to maximize controls over gate receipts at the smaller athletic events that involved minimal additional costs.

This communication is intended solely for the information and use of management, the Board of Education, others within the organization, and any pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Yeo & Yeo, P.C.*

Kalamazoo, Michigan  
September 20, 2007